



PORTFOLIO OPTIMIZATION WITH CRYPTO

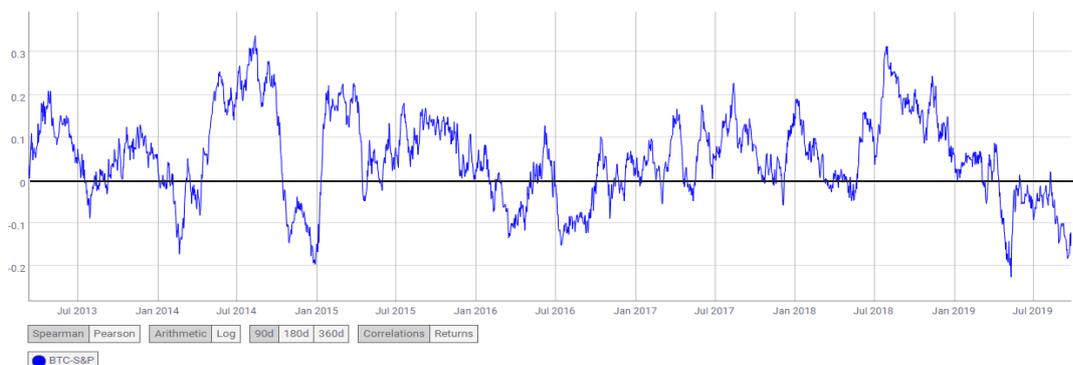
Crypto Research #6, October 2019

Due to its uncorrelated nature, even a small addition of crypto improves the risk / return profile of an investment portfolio significantly.

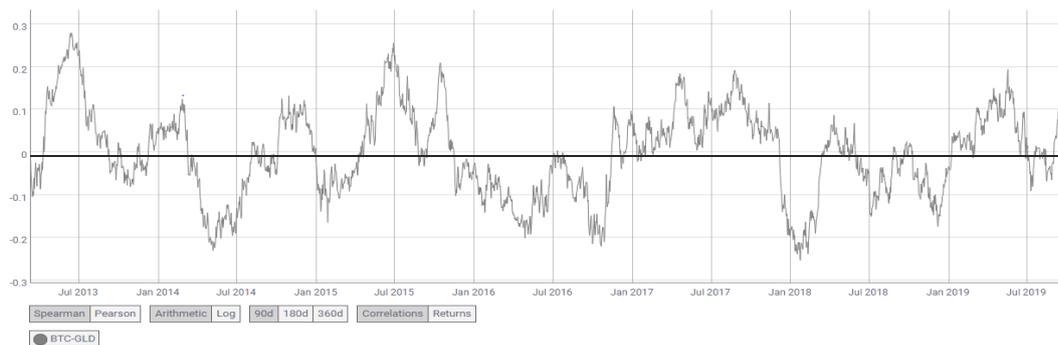
Crypto as a new Asset Class

The charts below show no correlation between crypto and other asset classes in the long-term. Hence, crypto can be considered a new asset class.

Correlation Bitcoin vs. S&P 500



Correlation Bitcoin vs. Gold



Source: www.coinmetrics.io

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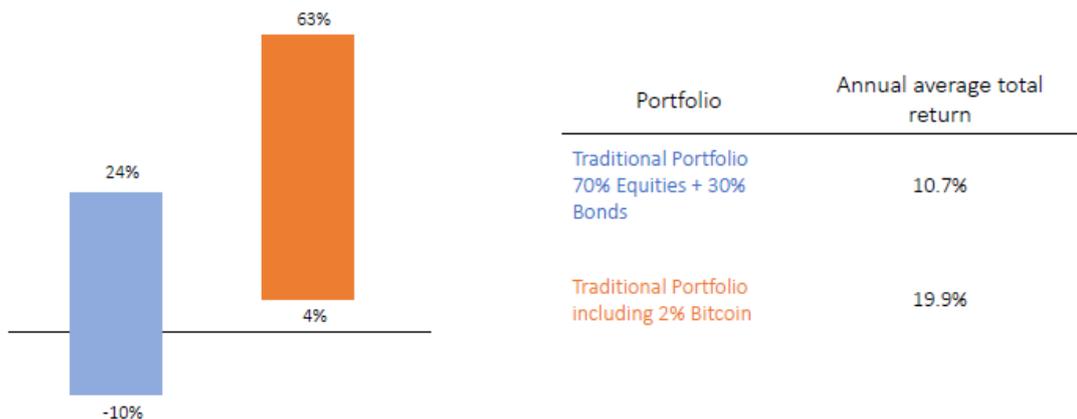


Risk/Return Optimization by adding Crypto

The table below shows that adding a small fraction of 2% Bitcoin to a balanced portfolio results in significantly higher returns. Since inception of Bitcoin in 2009, a traditional portfolio (blue) of 70% equities and 30% bonds had an average annual return of + 10.7%. Adding 2% Bitcoin (orange) nearly doubled the return to + 19.9%.

Now it could be argued that this only came about due to the phenomenal performance of Bitcoin in the initial phase and this return cannot be repeated. However, the Paperstreet Intelligence analysis shows that the same is true for shorter periods. Average returns for a two-year holding period range between + 4% to + 63% for the portfolio with crypto (orange). **Regardless of the entry point, the portfolio has never suffered a loss**, whereas the traditional portfolio (blue) faced a maximum drawdown of 10%.

Average 2- year rolling returns since 2009



Source: Paperstreet Intelligence

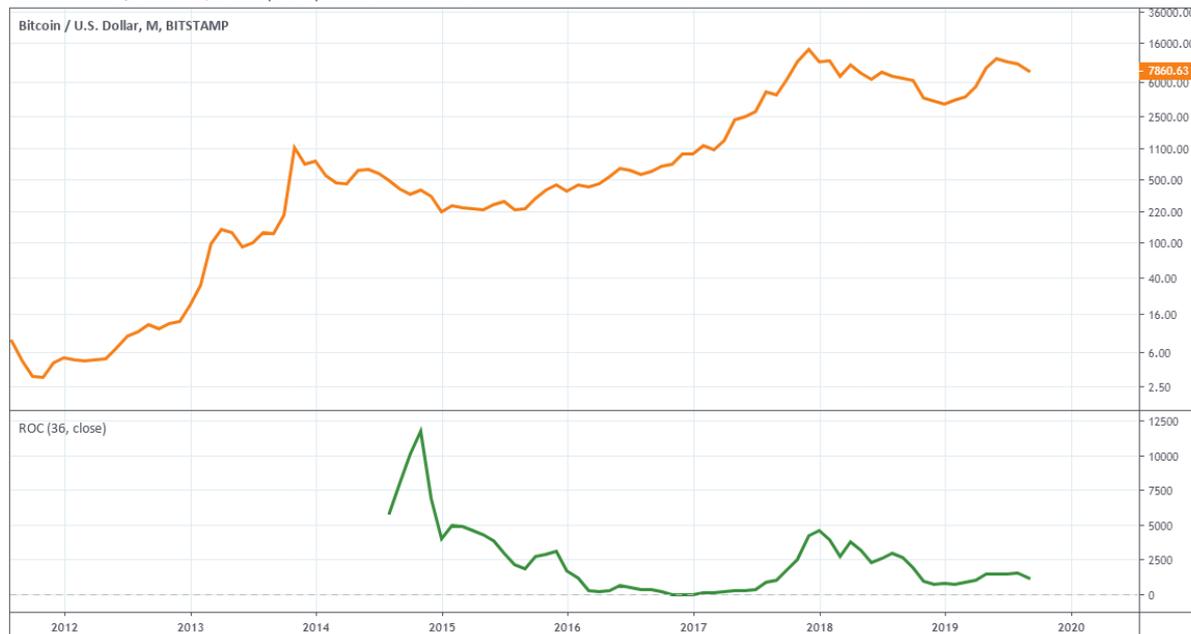
Risk / Return Profile of a pure Crypto Portfolio

The green line in the chart below shows the 3-year returns of Bitcoin in percentages. Despite sporadic crashes, a pure Bitcoin investment has never resulted in a loss if it was held for a minimum of three-years. On the other side, a multiplication of the investment has been the norm. An addition of Altcoins can further improve the return/risk profile.



Average 3- year rolling returns of Bitcoin

swissrex published on TradingView.com, September 30, 2019 08:47:55 UTC
BITSTAMP:BTCUSD, M 7860.63 ▼ -186.97 (-2.32%) O:9593.50 H:10949.00 L:7714.70 C:7860.63



Created with TradingView

Source: Tradingview

Crypto returns will decrease from cycle to cycle due to saturation, but they will probably remain well above those of other asset classes over the next 10 years. Institutional investors have only recently gained access to this new asset class and are significantly underinvested.

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